

ISSUE DATE: August 10, 1998

DOCKET NO. G-999/CI-97-145

ORDER REQUIRING IMPLEMENTATION PLAN

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
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Commissioner

In the Matter of an Investigation into
Unbundling Natural Gas Services

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PLAN

PROCEDURAL HISTORY

On October 28, 1997 the Commission issued an Order establishing a stakeholder work group to assist it in analyzing the costs, benefits, and feasibility of unbundling the sales and distribution functions of Minnesota's natural gas utilities.¹ The decision to convene the work group grew out of a petition asking the Commission to adopt rules mandating unbundling. The Commission denied the petition on grounds that the record did not show that unbundling would produce tangible benefits for Minnesota consumers. The work group was established to investigate whether such benefits were likely.

On July 15, 1998 Commission staff submitted its Staff Report on Stakeholder Work Group, which summarized and analyzed the positions of the stakeholders who had participated in the work group.

On July 23, 1998 the matter came before the Commission.

FINDINGS AND CONCLUSIONS

I. Summary

The Commission finds that it still lacks the thorough factual record necessary to determine whether or in what form unbundling offers significant advantages to Minnesota consumers. To refocus discussion and make it more fact-intensive, the Commission will ask the work group to develop a state-wide unbundling implementation plan over the course of the next year.

These actions are explained below.

¹In the Matter of a Petition to Establish Rules and Regulations for Natural Gas Consumer Choice, Docket No. G-999/R-97-1317, ORDER DENYING RULEMAKING PETITION AND CONVENING WORK GROUP (October 28, 1997).

II. The Original Work Group Process

A. The Original Charge

The October 28 Order establishing the work group explained its charge as follows:

The Commission believes the most efficient and straightforward way to proceed is to convene a stakeholder work group to provide technical assistance in examining unbundling issues. Its charge will be careful analysis of the threshold issues, in the form of a matrix illustrating unbundling's potential costs and benefits. Without this analysis, unbundling discussions will remain purely theoretical.

* * * * *

The matrix will serve as the framework for analyzing the two threshold issues: (1) Would unbundling materially benefit Minnesota natural gas customers? and (2) Which customer classes would it benefit? The categories at the top of the matrix will be the customer classes and subclasses. The issues to be analyzed for each class and subclass, listed on the left hand column, will include those listed below:

- (a) the short-term costs and benefits to the class or subclass of unbundling;
- (b) the short-term readiness of the class or subclass to participate in unbundling;
- (c) the short-term likelihood of the class or subclass benefitting from unbundling;
- (d) the short-term impact, especially any adverse impact, of any benefit to that class or subclass on every other class or subclass;
- (e) the long-term costs and benefits to the class or subclass of unbundling;
- (f) the long-term readiness of the class or subclass to participate in unbundling;
- (g) the long-term likelihood of the class or subclass benefitting from unbundling;
- (h) the long-term impact, especially any adverse impact, of any benefit to that class or subclass on every other class or subclass.

ORDER DENYING RULEMAKING PETITION AND CONVENING WORK GROUP at 5 and 6.

B. The Participants

The following stakeholders filed comments or otherwise participated in the work group process: Minnesota Department of Public Service, Residential and Small Business Utilities Division of the Office of the Attorney General, Energy CENTS Coalition, Minnesota Municipal Utilities Association, Minnesota Municipal Utilities Group, Austin Utilities, Great Plains Natural Gas Company, Minnegasco, Interstate Power Company, Northern States Power Company - Gas Utility, UtiliCorp United, Inc., Northern Natural Gas Company, ANR Pipeline Company, Minnesota Energy Consumers, Minnesota Retail Merchants Association, Enron Capital and Trade Resources, Duke Energy Trading and Marketing, PAM Natural Gas, MidCon Corporation, Suburban Rate Authority, Sorgo Fuels and Chemicals, Joint Coalition of Marketers, Alexandria Light & Power, District Energy of St. Paul, Cooperative Power Association, Associated Consultants Engineers, Inc., U. S. Energy Services, NorAm Consumer Services, Western Petroleum, Blue Earth Light & Water, Center for Energy and Environment, League of Minnesota Cities, Minnesota Department of Revenue, and Minnesota Power.

Levels of participation varied, presumably in accordance with participants' levels of interest, priorities, and resources. Only eleven stakeholders filed written comments or responded in writing to survey questions developed by staff.

C. The Outcome

The work group process did not prove to be an entirely effective tool for developing and analyzing empirical data on the costs and benefits of unbundling.

The October 28 Order had envisioned a matrix illustrating, over the long and the short term, each customer class's and sub-class's readiness to participate in unbundling, the benefits likely to accrue to each customer class and subclass, the costs likely to arise from each customer class's and subclass's participation, and the effects of each customer class's and sub-class's participation on other customer classes and sub-classes.

Not only were stakeholders unable to reach consensus on broad policy issues, they were unable even to complete the matrix. They did, however, engage in a comprehensive policy debate, which helped identify the interests different stakeholders considered threatened or potentially strengthened by unbundling. What they did not or could not do was supply the reliable empirical data and analysis necessary to justify either a major unbundling policy initiative or the abandonment of unbundling policy discussions altogether.

While few stakeholders recommended that the Commission end its exploration of unbundling, none of the commenting parties believed clear benefits had been shown or a workable plan developed. In fact, a recurrent theme in stakeholders' comments was the need for further fact-finding and analysis.

III. Commission Action

The Commission agrees with most of the stakeholders that unbundling merits further analysis and consideration. It has become increasingly clear over the last decade that market forces can be powerful and versatile components of, or substitutes for, economic regulation.

Where competition operates effectively, it clearly drives down price, improves quality, and spurs technological innovation. Proponents of unbundling claim competition can operate effectively in the retail natural gas market. The Commission has a duty to examine this claim to ensure that Minnesota consumers continue to receive the lowest priced, most reliable, most consumer-driven natural gas service possible. The issue is how to develop the facts necessary to critically evaluate this claim.

The Commission believes that the most promising strategy at this point is to continue the work group and to ask it to apply its experience and expertise to developing a state-wide unbundling implementation plan. The policy debates that have taken place in the work group and before the Commission have served their purpose and exhausted their potential. They have not enabled the Commission to resolve the issue. It seems clear that further progress depends upon refocusing discussion from the abstract to the concrete.

It is time to move beyond outlining the issues to developing a blueprint for change. Developing and reacting to that blueprint should yield the empirical data and practical orientation the Commission needs to complete its examination of this important public policy issue.

The Commission therefore asks the work group to develop, over the course of the next year, a state-wide unbundling implementation plan. This plan should apply to all local distribution companies. At a minimum, it should address the issues listed below:

- (a) deaveraging of gas costs;
- (b) unbundling and disclosing the cost on customer bills of all elements of local distribution service, ranging from distribution and supply, to gas procurement, upstream firm and interruptible transportation, upstream storage, on-system storage, balancing, peaking, back-up and emergency services, billing and metering;
- (c) universal service standards, consumer education, consumer protection, adequate funding of conservation programs;
- (d) expanding the availability of transportation service to larger, high load factor customers, perhaps through aggregation;
- (e) operational standards and systems necessary for successful unbundling, such as electronic bulletin boards, web sites, and other scheduling and information systems.

As the work group proceeds, it will no doubt identify other issues integral to making unbundling work, or militating against its adoption.² These issues should be addressed as well.

²For example, the Residential Utilities Division of the Office of the Attorney General raised two issues that may merit development: (1) whether the tariffs of local distribution companies contain barriers to entry by marketers seeking to sell gas to transportation customers, and (2) whether rate structures should be refined to prevent the uneconomic bypass of local distribution companies' merchant services.

The Commission, acting through its staff, will convene the work group forthwith.

ORDER

1. The Commission hereby asks the stakeholder work group to develop a state-wide unbundling implementation plan, described above, and to deliver the plan to the Commission within approximately one year of the date of this Order.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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